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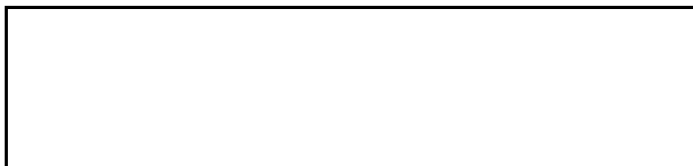


DIRECTORATE OF  
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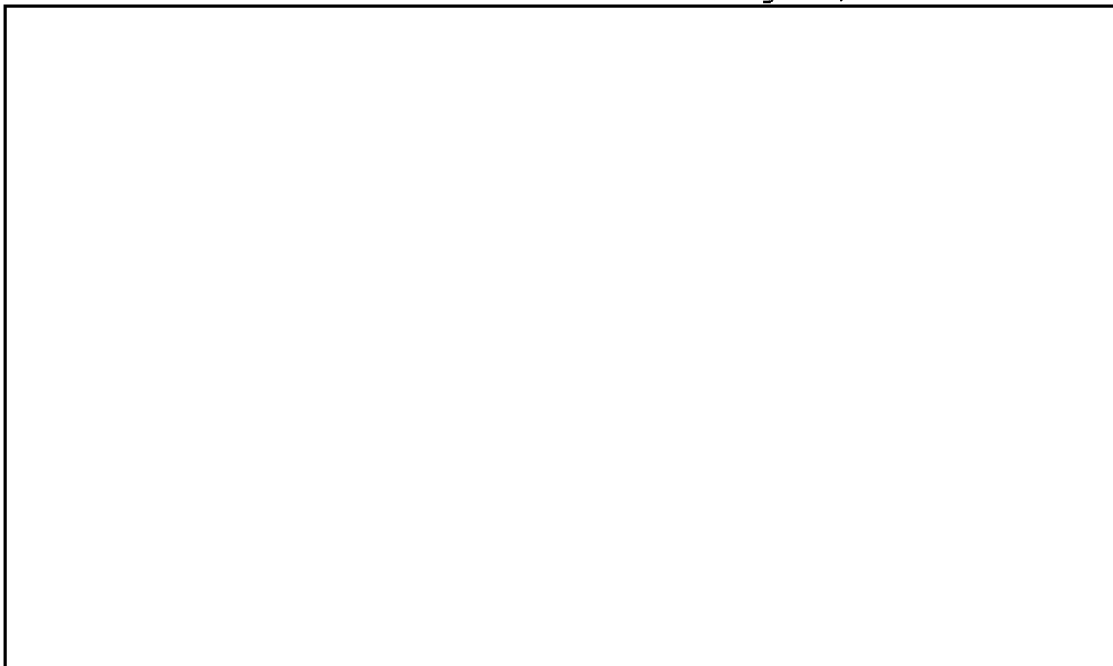
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SOUTH VIETNAM: The breach between Ky and Thieu is widening. (Page 4)

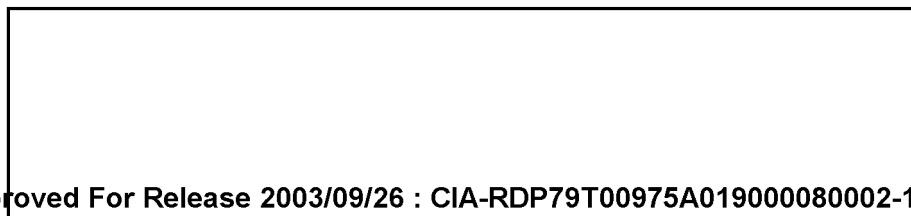


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COMMUNIST CHINA - CEYLON: Peking reportedly is offering considerable assistance. (Page 8)



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SOUTH VIETNAM: The government's attempts to curtail Vice President Ky's political activities are widening the breach between him and President Thieu.

Several aides of Ky have recently complained to US Embassy officers that Prime Minister Khiem has instructed members of the cabinet not to invite Ky to government-sponsored public functions. They also report that orders have gone out to all province chiefs not to receive Ky or provide him with any of the facilities normally given to a vice president.

The most recent incident involved the cancellation of a scheduled meeting of a group of Vietnamese Nationalist Party politicians in Saigon on 12 May, which Ky was scheduled to address. The owner of the meeting hall refused to open the doors.

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A Saigon paper closely identified with Ky accused President Thieu of responsibility for the refusal. Issues of the paper have been seized with increasing frequency since Ky began his series of harsh attacks on the government several weeks ago.

Thieu is clearly exasperated by the Vice President's new openly antigovernment posture, and he probably is concerned that Ky's candidacy in the presidential election could cut deep enough into the President's own support to threaten his reelection chances. If Thieu becomes closely identified with efforts to interfere with Ky's campaign, however, this could backfire and create additional sympathy for the Vice President.

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COMMUNIST CHINA - CEYLON: Peking is offering considerable financial assistance to the Bandaranaike government

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The Chinese are prepared to extend a \$30-million hard currency credit repayable in ten years without interest. A loan of this size would increase Ceylon's foreign exchange reserves by more than 50 percent.

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The Chinese probably made the offer to dissociate themselves from Ceylon's insurrectionists and to balance recent Soviet initiatives.

Soviet aid in response to the insurgency has been limited to military equipment; Colombo apparently can use the Chinese credit as it sees fit. Although several Western countries also have been responsive to Colombo's needs for military assistance and limited amounts of medical aid, none has offered hard currency assistance.

Since 1957 China has supplied credits and grants to Ceylon amounting to over \$50 million. Peking and Colombo also have an annual rice-rubber agreement under a long-standing trade pact. Peking recently increased its rice shipments as an initial gesture of support for Colombo following the insurgency.

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